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NATIONAL RESEARCH COUNCIL CANADA

ARCHIVED - Quarterly Financial Report - For the quarter ended June 30, 2014

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National Research Council Canada

Statement outlining results, risks and significant changes in operations, personnel and programs

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1. Introduction

The Government of Canada uses financial information to support decision making, for policy development, for service delivery and for historical reference. These financial statements have been prepared to respond to these requirements. This Departmental Quarterly Financial Report (QFR) reflects the results of the current fiscal period in relation to the Main Estimates and Supplementary Estimates (A). The QFR should be read in conjunction with the Main Estimates and Supplementary Estimates (A) as well as Budget 2012, Budget 2013 and Budget 2014. They have been prepared by management as required by section 65.1 of the *Financial Administration Act (R.S.C., 1985, c. F-11)* and in the form and manner prescribed by the Treasury Board of Canada Secretariat. Although these statements have not been subject to an external audit or review, the National Research Council Canada (NRC) attests that they are an accurate and true reflection of the financial position for the period ending June 30, 2014.

1.1 NRC Mandate

The National Research Council Canada (NRC) exists under the *National Research Council Act (R.S.C., 1985, c. N-15)* and is a Departmental corporation named in Schedule II of the *Financial Administration Act (R.S.C., 1985, c. F-11)*. The mission of the NRC is to work with clients and partners to provide innovation support, strategic research, scientific and technical services to develop and deploy solutions to meet Canada's current and future industrial and societal needs.

Under the *National Research Council Act (R.S.C., 1985, c. N-15)*, the NRC is responsible for:

- Undertaking, assisting or promoting scientific and industrial research in fields of importance to Canada;
- Providing vital scientific and technological services to the research and industrial communities;
- Investigating standards and methods of measurement;
- Working on the standardization and certification of scientific and technical apparatus and instruments and materials used or usable by Canadian industry;
- Operating and administering any astronomical observatories established or maintained by the Government of Canada;
- Establishing, operating and maintaining a national science library; and
- Publishing and selling or otherwise distributing such scientific and technical information as the NRC deems necessary.

Further details on the NRC's legislative framework, authority, mandate and program activities can be found in Part II of the Main Estimates and the Report on Plans and Priorities.

1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting. The accompanying Statement of Authorities includes the NRC's spending authorities granted by Parliament and those used by the NRC consistent with the Main Estimates and Supplementary Estimates (A) for 2014-15. This quarterly report has been prepared using a special purpose financial reporting framework designed to meet financial information needs with respect to the use for spending authorities.

The authority of Parliament is required before moneys can be spent by the Government of Canada. Approvals are given in the form of annually approved limits through appropriation acts or through legislation in the form of statutory spending authority for specific purposes (pursuant to paragraph 5(1)(e) of the *National Research Council Act (R.S.C., 1985, c. N-15)*, the NRC has authority to expend revenues it has received through the conduct of its operations).

When Parliament is dissolved for the purposes of a general election, section 30 of the *Financial Administration Act (R.S.C., 1985, c. F-11)* authorizes the Governor General, under certain conditions, to issue a special warrant authorizing the Government of Canada to withdraw funds from the Consolidated Revenue Fund. A special warrant is deemed to be an appropriation for the fiscal year in which it is issued.

The NRC uses the full accrual method of accounting to prepare and present its annual departmental financial statements which are part of the Departmental performance reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis.

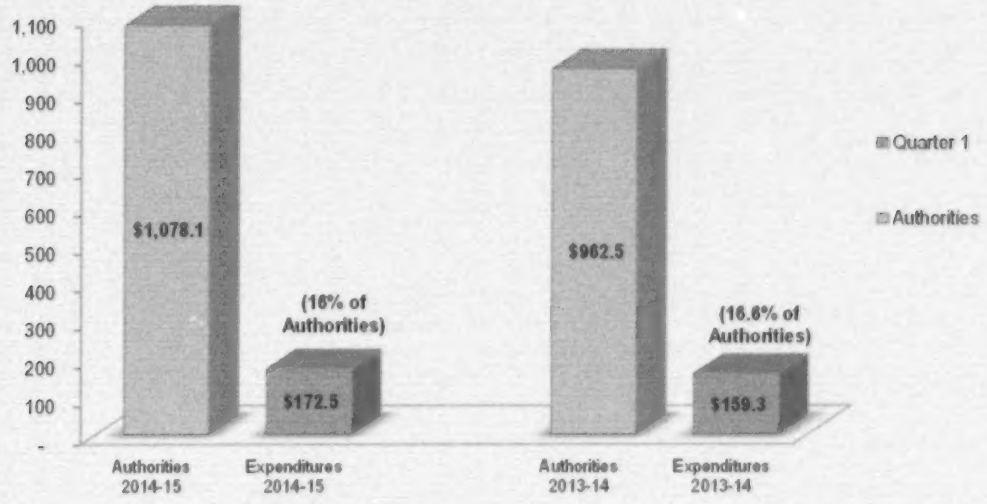
2. Highlights of Fiscal Quarter and Fiscal Year to Date (YTD) results

This section highlights the items that contributed most significantly to the changes in budgetary authorities for the current fiscal year and to the actual expenditures for the quarter that ended on June 30, 2014 compared with the previous fiscal year. This section should be read in conjunction with the NRC's tables entitled Statement of Authorities and Departmental budgetary expenditures by Standard Object found on the last 2 pages of this report.

2.1 Authorities and Expenditures

The following graph provides a comparison of the budgetary authorities and expenditures as of June 30, 2014 and those as of June 30, 2013.

Comparison of Budgetary Authorities and Expenditures as of June 30, 2014 and June 30, 2013
(in millions of dollars)



As shown in the graph above, the NRC's expenditures totalled $172.5M during the first quarter of 2014–15 which represents an increase of $13.2M over the first quarter of 2013-14. Higher expenditures are attributable to the combined increase of $13.1M in net operating and statutory revenue expenditures, $0.9M in Statutory EBP, $0.8M in capital expenditures offset by a decrease of $1.6M in contributions. Refer to 2.3 Significant Changes to Budgetary Expenditures for additional details.

2.2 Significant Changes to Authorities

For the period ending June 30, 2014, the authorities provided to the NRC include the Main Estimates and the Supplementary Estimates (A).

As reflected in the *Statement of Authorities*, the NRC has seen a total increase in authorities of $115.6M when compared with the June 30, 2013 QFR.

The following table summarizes the variances:

For the year ending March 31, 2015 - As of June 30, 2014
Significant Changes to Authorities (*unaudited*)
(in millions of dollars)

	Vote 1 Operating	Vote 5 Capital	Vote 10 Grants & Contributions	Statutory Revenues	Contributions to EBP	Total
Authorities – Total available for use for the year ending March 31, 2014 - As of June 30, 2013						962.5
Add (deduct) :						
Budget 2013 - to support the realignment to industry focused research	52.5				7.1	59.6
Statutory Revenue increase				55.3		55.3
Digital Technology Adoption Pilot Program	(2.4)		(34.7)		(0.4)	(37.5)
Budget 2014 - Youth Employment Strategy			15.0			15.0
Budget 2013 - Canada Accelerator and Incubator Program	0.2		14.3			14.5
Statutory Revenue Carry Forward increase				14.3		14.3
Budget 2013 - Business Innovation Access Program			10.0			10.0
Genomics R&D Initiative	(8.2)				(0.6)	(8.8)
Canadian Light Source	(2.3)					(2.3)
EBP Adjustment					(3.3)	(3.3)
Compensation Adjustment for FI, PE & TO	1.7				0.3	2.0
Canadian HIV Technology Development Program			(1.7)			(1.7)
Shared Services Canada - End User Devices	(1.6)					(1.6)
Other	2.6		(3.1)		0.6	0.1
Total increase in authorities in comparison to prior year	42.5	-	(0.2)	69.6	3.7	115.6
Authorities – Total available for use for the year ending March 31, 2015 - As of June 30, 2014						1,078.1

The increase of $115.6M in authorities is explained by the following items.

- An increase of $59.6M for the realignment to industry focused research from Budget 2013 which will help the growth of innovative businesses in Canada;
- An increase of $55.3M in estimated statutory revenue included in the Main Estimates for the current fiscal year;
- A decrease of $37.5M associated with the close of the Digital Technology Adoption Pilot Program launched in 2011;
- An increase of $15M for the Youth Employment Strategy as announced in Budget 2014 to support youth internships in small and medium-sized enterprises undertaking technical research and development projects;
- An increase of $14.5M related to a new five year pilot program called the Canada Accelerator and Incubator Program announced in Budget 2013 which is designed to help small and medium-sized enterprises access research and business development services at universities, colleges

and other non-profit research institutions of their choice. Additional funding was announced in Budget 2014;

- An increase of $14.3M in statutory revenue available for use in subsequent years following the close of fiscal 2013-14;
- An increase of $10M for the Business Innovation Access Program as announced in Budget 2013 to help small and medium-sized enterprises access business and technical services;
- A decrease of $8.8M in funding for the Genomics Research and Development (R&D) Initiative. This program was renewed during the quarter therefore NRC authorities will be adjusted once funding is approved by Parliament;
- A decrease of $2.3M for the Canadian Light Source funding transferred to the Natural Sciences and Engineering Council of Canada;
- A decrease of $3.3M related to EBP adjustments;
- An increase of $2M related to collective bargaining salary increases for the FI, PE & TO categories following the conclusion of the Government of Canada's two-year cost containment measures;
- A decrease of $1.7M related to the re-profiled funding from 2011-12 to 2013-14 for the Canadian HIV Technology Development Program;
- A decrease of $1.6M associated with the Government of Canada's implementation of an enterprise approach to the procurement of workplace technology devices and related software;
- A net increase of $0.1M for various items.

2.3 Significant Changes to Budgetary Expenditures

This section should be read in conjunction with the NRC's tables entitled Statement of Authorities and Departmental budgetary expenditures by Standard Object both located at the end of this report.

2.3.1 Variances in Year-to-date Expenditures

As of June 30, 2014, year-to-date expenditures were $172.5M, representing an increase of $13.2M (8.3%) in comparison to the 2013-14 expenditures of the same period. The increase is mostly attributable to the following items:

- Combined net operating expenditures and statutory revenue expenditure increase of $13.1M, compared with the same period of the previous fiscal year. This change is mainly attributable to a $11.5M increase in personnel due to a one-time transition payment for implementing salary payments in arrears by the Government of Canada;
- Grants & Contributions (G&C) expenditures decreased by $1.6M compared with the same period in the previous year. Of this amount, $2.1M is attributable to increased contributions to firms and organizations at NRC-IRAP resulting from the permanent increase received in Budget 2012, $0.9M increase for the Youth Employment Strategy represents new funding announced in Budget 2014 offset by a decrease of $1.2M in Digital Technology Adoption Pilot Program contributions due to the termination of this program and a $3.3M decrease related with the timing difference of contribution payments to TRIUMF.

3. Risks and Uncertainties

3.1 NRC Corporate Risks

The focus in 2014-15 for risk management is on effective and efficient execution of R&D initiatives and delivery of results. Based on the NRC's Corporate Risk Profile, key external risks being managed this fiscal year include:

- **Delivery of results for clients and Canada** – the NRC will monitor that programs are effectively executed and that expected results are delivered for clients and Canada, mitigating risks by various initiatives such as program reviews; implementing program boards; undertaking foresight exercises to identify new opportunities and more.
- **Longer term competitiveness and relevance to clients** – the NRC will ensure that it is proactively building longer term capabilities that are required to attract relevant Canadian and international firms, minimizing risks by identifying new innovative R&D opportunities that will deliver future benefits to clients; and, using forward looking business practices to understand current and future client needs.
- **Sourcing and management of technical and business expertise** - the NRC will identify gaps in expertise and effectively manage internal supply and demand of existing talent across organization, ensuring successful program delivery and future growth. This risk will be mitigated by monitoring upcoming technical and business expertise requirements and success rates for first choice hires; and developing tools that support proactive management of internal competencies and sourcing across the NRC.

4. Significant changes in relation to operations, personnel and programs

The Genomics Research and Development (R&D) Initiative (GRDI) has been renewed and will have a total cost of $246.6M over the next five years ($99.5M sourced from the fiscal framework and the remaining $147M from existing reference levels) to continue research in agriculture, environment, fisheries, forestry, and health. GRDI is a unique Canadian initiative that coordinates eight federal science departments and agencies in the field of genomics research: the National Research Council Canada (NRC), Agriculture and Agri-Food Canada, Health Canada, Fisheries and Oceans Canada, the Canadian Food Inspection Agency, Environment Canada, Natural Resources Canada, and the Public Health Agency of Canada.

A new program that will help small and medium-sized businesses (SMEs) access business and technical services related to innovation was recently launched. The Business Innovation Access Program, a $20-million investment over the next two years, will leverage the extensive networks and knowledge within NRC-IRAP to connect SMEs with universities, colleges and other research institutions to address and resolve barriers to the commercialization of ideas, products and services. The Business Innovation Access Program follows from a series of recommendations made by the independent Research and

Development Review Expert Panel lead by Tom Jenkins in 2010-11 to better focus federal investments while maximizing innovation and economic benefit for Canadians.

5. Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 implemented in order to refocus the Government of Canada and its programs; make it easier for Canadians and business to deal with their government; and, modernize and reduce the back office.

The NRC also fully achieved its ongoing Budget 2012 savings of $15.2M in fiscal year 2013-14 through administrative efficiencies within its internal operations by consolidating and streamlining activities as well as through program reductions. There are no variances in the NRC's authorities between fiscal year 2013-14 and 2014-15 due to full reductions to the NRC's permanent reference levels in the second year of implementation. The NRC also realized savings of $1.3M identified for its first year of implementation in 2012-13.

There are no significant financial risks or uncertainties related to the implementation of the NRC's Budget 2012 savings measures. The NRC developed a roll-out plan for each of its savings measures and progress against the plan is monitored by senior management on a quarterly basis.

Budget 2012 also included $67M in funding for fiscal year 2012-13 to support the NRC in refocusing on business-led, industry relevant research as well as $110M in continued funding to double financial support and expand services provided by NRC-IRAP to innovative small and medium-sized businesses that create high-value jobs. As part of this initiative, the NRC launched a concierge service that provides information and assistance to small and medium-sized businesses by helping them make effective use of federal innovation programs.

Approved by:

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Date: September 19, 2014

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Vice-President, Corporate Management and Chief Financial Officer
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National Research Council Canada

Quarterly Financial Report
For the quarter ended June 30, 2014

Statement of Authorities (unaudited)

	Fiscal Year 2014-2015 (in thousands of dollars)		
	Total available for use for the year ending March 31, 2015 *	Used during the quarter ended June 30, 2014	Year to date used at quarter-end
Vote 1 - Net Operating expenditures	374,509	116,896	116,896
Vote 5 - Capital expenditures	30,742	2,926	2,926
Vote 10 - Grants & contributions	274,891	41,605	41,605
Statutory revenue **	354,010	96	96
Statutory EBP	43,901	10,975	10,975
Total Budgetary authorities	1,078,143	172,498	172,498

	Fiscal Year 2013-2014 (in thousands of dollars)		
	Total available for use for the year ending March 31, 2014 ***	Used during the quarter ended June 30, 2013	Year to date used at quarter-end
Vote 60 - Net Operating expenditures	331,886	93,035	93,035
Vote 65 - Capital expenditures	30,776	2,143	2,143
Vote 70 - Grants & contributions	275,109	43,185	43,185
Statutory revenue **	284,539	10,900	10,900
Statutory EBP	40,238	10,059	10,059
Total Budgetary authorities	962,548	159,322	159,322

** Includes only Authorities available for use and granted by Parliament at quarter end.*

*** Includes Statutory Revenue available for use in future years pursuant to paragraph 5(1)(e) of the National Research Council Act (R.S.C., 1985, c. N-15)*

**** Includes only Authorities available for use and granted by Parliament at quarter end. Total available for use does not reflect measures announced in Budget 2013.*

National Research Council Canada

For the quarter ended June 30, 2014

Departmental budgetary expenditures by Standard Object

(unaudited)

	Fiscal Year 2014-2015 (in thousands of dollars)		
	Planned expenditures for the year ending March 31, 2015	Expended during the quarter ended June 30, 2014	Year to date used at quarter-end
Expenditures			
Personnel	405,671	92,733	92,733
Transportation & communications	28,705	2,563	2,563
Information	3,485	263	263
Professional & special services	109,790	7,388	7,388
Rentals	9,485	2,054	2,054
Repair & maintenance	37,869	2,311	2,311
Utilities, materials & supplies	148,402	6,669	6,669
Acquisition of machinery & equipment	26,792	409	409
Transfer payments	214,891	91,655	91,655
Other subsidies & payments	36,245	11,673	11,673
Total net budgetary expenditures	1,019,143	115,486	115,486

	Fiscal Year 2013-2014 (in thousands of dollars)		
	Planned expenditures for the year ending March 31, 2014 *	Expended during the quarter ended June 30, 2013	Year to date used at quarter-end
Expenditures			
Personnel	396,166	94,737	94,737
Transportation & communications	25,851	2,414	2,414
Information	3,008	312	312
Professional & special services	91,266	8,041	8,041
Rentals	12,411	1,120	1,120
Repair & maintenance	32,936	2,968	2,968
Utilities, materials & supplies	135,453	4,903	4,903
Acquisition of machinery & equipment	6,029	409	409
Transfer payments	275,169	45,195	45,195
Other subsidies & payments	17,450	3,427	3,427
Total net budgetary expenditures	862,446	106,223	106,223

* Planned expenditures do not reflect measures announced in Budget 2013.